ISAE 3000 and Direct Engagements

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IAASB Meeting
Brussels, Belgium
February 13, 2013
Direct Engagements - Introduction

- Commonly carried out by public sector auditors around the world pursuant to legal mandates; Also private sector
- Assess "value for money", management performance, compliance with laws and regulations etc.
- Best practice reports include summaries of the criteria and methodology used by practitioners
- Usually well-received and relied upon by legislatures and often extensively reported on by the media
Direct Engagements - Introduction

• In an attestation engagement, the measurement/evaluation process and assurance process are clearly separate responsibilities performed by different parties.

• In a direct engagement, the measurement/evaluation process and assurance process are always performed by the practitioner and may be a single process.

• Evidence on the underlying subject matter and assessment against criteria.
Direct Engagements – Similarities and Differences with Attestation Engagements

Key Concepts

• Three party relationship for both direct and attestation:
  – Similarity: At least Responsible Party, Practitioner, Intended Users
  – Difference: Practitioner is the first measurer/evaluator rather than the Responsible Party

• Underlying Subject Matter
• Suitable Criteria
• Subject Matter Information / Conclusion
• Assurance obtained by the practitioner

Distinguished from valuation engagements, compilations etc by assurance component
Example of Key Concepts applied to a Financial Statement Audit under ISAs (Attestation)

- Measurer/Evaluator – Management/TCWG
- Underlying Subject Matter \([USM]\) – Financial position and performance and cash flows of the entity
- Suitable Criteria – IFRS
- Subject Matter Information \([SMI]\) – Financial statements
- Assurance conclusion – Whether the financial statements \([SMI]\) present fairly, in all material respects, the financial position, performance and cash flows of \([the entity]\) \([USM]\) in accordance with IFRS \([Suitable Criteria]\)
Direct engagement – Value for money in an Emergency Department

• Measurer/Evaluator – the Practitioner
• Underlying Subject Matter – Activity of an emergency department in a hospital
• Suitable criteria – Selected or developed based on regulations and best practice guides regarding the use of public funds
• Subject Matter Information – Measurement/evaluation of the hospital’s emergency department against the suitable criteria
• Assurance conclusion – Whether the hospital’s emergency department provides value for money or not
Attestation engagement – Value for money in an Emergency Department

- Measurer/Evaluator – Hospital management
- Underlying Subject Matter – Activity of an emergency department of a hospital
- Suitable criteria – Selected or developed based on regulations and best practice guides regarding the use of public funds
- Subject Matter Information – Measurement/evaluation by management of the hospital’s emergency department against the suitable criteria
- Assurance conclusion – whether management’s assessment of value for money is appropriate
Direct Engagement – Examination of the forecasts prepared by the UK Office for Budget Responsibility

Example 3 in Agenda Item 3-A

- Measurer/Evaluator – Practitioner (National Audit Office)
- Underlying Subject Matter – Economic and fiscal assumptions underpinning the Office for Budget Responsibility’s forecasts
- Suitable criteria – 6 criteria stated in report
- Subject Matter Information – Measurement against criteria (see page 8)
- Assurance conclusion (part of subject matter information) – “In our opinion, based on the criteria in Figure 1, the key economic and fiscal assumptions underpinning the Office for Budget Responsibility’s forecasts have been independently arrived at”
Direct Engagement – German Assurance Engagements on Projects Applying Information Technology

Example 4 in Agenda Item 3-A

- Measurer/Evaluator – Practitioner (private sector)
- Underlying Subject Matter – A company’s IT project which resulted in changes to the IT system relevant to financial reporting
- Suitable criteria – applicable legal requirements, including specified elements of an IDW Accounting Principle (IDW AcP FAIT 1)
- Assurance conclusion (part of subject matter information) – “We conclude that, based on the findings of our reasonable assurance engagement, the implementation of this project as part of the company’s IT-based accounting system, if properly applied, ensures compliance with the requirements as to propriety, security and controls pursuant to IDW AcP FAIT 1 stemming from the applicable legal provisions, including those stemming from the German principles of proper accounting.”

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